



February 16, 2005

CBO DIRECTOR SAYS CURRENT BUDGET PATH IS UNSUSTAINABLE

Cites long-term “mismatch” between long-term promises and resources

WASHINGTON—The federal government’s current budgetary course is unsustainable, the Director of the Congressional Budget Office (CBO) told members of the Senate Budget Committee today.

Douglas Holtz-Eakin testified at the second in a series of hearings, “Long-Term Budget Challenges: Charting Stability for Our Children and Grandchildren.”

Asked to characterize the government’s long-term budget situation, Holtz-Eakin said, “It is likely unsustainable. There is a long-term mismatch between the spending promised and resources present to finance it.”

Holtz-Eakin pointed out that the post-World War II average of federal government spending as a percentage of the overall economy has been 20 percent. But in coming years, Medicare and Medicaid alone could consume that much spending.

“That’s a straight line extrapolation of history so something will have to change in order for that not to occur,” he said.

Further, Social Security spending will rise to 6 percent of gross domestic product (GDP), bringing the total for those three programs to 26 percent of GDP and total federal spending to more than 30 percent by 2050 – almost twice the percentage of last year.

“That’s the risk we face,” Holtz-Eakin said. “We would have to have higher taxes and - to the extent they are levied in an inefficient fashion - that would have an economic cost. There would also be the temptation to accomplish policy goals in other ways such as regulation or mandates which interferes with the flexibility of the economy. It would be hard to maintain historic patterns that have been successful in the United States.”

Sen. John Ensign (R-NV) said, “Unfunded government obligations present real problems to the nation’s budget outlook and the overall economy. These problems cannot be overstated. Historically, the government consumes about 18 or 19 percent of

the nation's economy or GDP. In the future we can expect that percentage to rise to between 30 and 35 percent. To fund this level of spending would require tax rates that are outrageously high. Frankly, our economy cannot support this growth in government spending. The bottom line is that we are in trouble in the future if we don't make changes that address these issues."

Sen. Wayne Allard (R-CO) added, "These are very difficult issues to struggle with and it has taken some leadership. I think it has taken the President to bring up these issues. Now we are finding more and more members saying let's look at the total package. Solutions are not going to be easy, but it's important we recognize them early on so we can begin to address them."

The Committee tomorrow holds Part 3 of the series and will focus specifically on the long-term obligations of Medicare and Medicaid as follows:

Hearing: "Medicare and Medicaid: Rising Health Care Costs and the Impact on Future Generations"

When: Thursday, February 17, 10 a.m.

Where: Senate Dirksen 608

Witnesses:

Dr. Thomas Saving
Director
Private Enterprise Research Center

Dr. Jeffrey Brown
Assistant Professor of Finance
University of Illinois at Urbana-Champaign

Lois Quam
Chief Executive Officer
Ovations
A UnitedHealth Group Company